MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BEC1044 – MACROECONOMICS

(All sections / Groups)

29 FEBRUARY 2016
9:00 a.m. – 11:00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **TWELVE (12)** pages with **FORTY (40)** multiple choice questions in Section A and **THREE (3)** Structured Questions in Section B.

2. Attempt **all questions** in **SECTION A** and **SECTION B**. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers for Section A in the multiple-choice answer sheet and Section B in the Answer Booklet provided.

SECTION A (40 Marks)

There are FORTY (40) questions in this section. Answer ALL questions on the multiple-choice answer sheet.

1. Gross domestic product (GDP) is known as the total market value of _____.

   A. all goods and services produced within a given period by own citizen within a country.
   B. all goods and services produced within a given period by own citizen in the whole world.
   C. all final goods and services produced within a given period by factors of production located within a country.
   D. all intermediate goods and services produced within a given period by factors of production located within a country.

2. For an economy as a whole, _____.

   A. wages must equal profit.
   B. income must equal expenditure.
   C. consumption must equal saving.
   D. the number of buyers must equal the number of sellers.

3. Why gross domestic product (GDP) is different from gross national product (GNP)?

   A. GDP excludes net export.
   B. GDP excludes depreciation.
   C. GDP excludes gross private investment abroad.
   D. GDP excludes net income earned by own factors of production located abroad.

4. Gross Domestic Product (GDP) does not capture the changes of social welfare because GDP _____.

   A. does not capture the social and humanistic aspects of a country.
   B. does not include the value of the capital goods that used to produce a new good.
   C. does not include the income earned by own factors of production located abroad.
   D. All of the above.

5. When the consumer price index rises, the typical family _____.

   A. can offset the rising prices by saving more.
   B. finds that its standard of living is not affected.
   C. can spend fewer ringgit to maintain the same standard of living.
   D. has to spend more ringgit to maintain the same standard of living.

Continued...

6. In the CPI, goods and services are weighted according to _____.

   A. how much consumers buy of each good or service.
   B. how long a market has existed for each good or service.
   C. the number of firms that produce and sell each good or service.
   D. the extent to which each good or service is regarded by the government as a necessity.

7. The producer price index measures the cost of a basket of goods and services

   A. bought by firms.
   B. sold by producers.
   C. produced for a typical consumer.
   D. typically produced in the economy.

8. The three problems with using the consumer price index as a measure of the cost of living are

   A. widely acknowledged and easy to solve.
   B. nearly unacknowledged and easy to solve.
   C. widely acknowledged and difficult to solve.
   D. nearly unacknowledged and difficult to solve.

9. Suppose the price of a tub of margarine rises from $3 to $3.75 and the price of a notebook rises from $1.25 to $1.75. If the CPI rises from 140 to 182, then people likely will buy _____.

   A. less margarine and more notebooks.
   B. less margarine and fewer notebooks.
   C. more margarine and more notebooks.
   D. more margarine and fewer notebooks.

10. A nation's standard of living is best measured by its _____.

    A. real GDP.
    B. real GDP per person.
    C. nominal GDP.
    D. nominal GDP per person.

Continued...

11. The one variable that stands out as the most significant explanation of large variations in living standards around the world is _____.

A. prices.
B. population.
C. preferences.
D. productivity.

12. What term do economists use to describe the relationship between the quantity of inputs used and the quantity of output produced?

A. input function.
B. returns to scale.
C. capital function.
D. production function.

13. Which of the following statements is correct?

A. By definition, all natural resources are nonrenewable.
B. Market prices give us reason to believe that natural resources are a limit to economic growth.
C. An economy must be blessed with ample quantities of natural resources if it is to be a highly productive economy.
D. Differences in natural resources can explain some of the differences in standards of living around the world

14. Which of the following statements about the *term* of a bond is correct?

A. The term of a bond is determined entirely by its credit risk.
B. *Term* refers to the various characteristics of a bond, including its interest rate and tax treatment.
C. The term of a bond is determined entirely by how much sales charge the buyer of the bond pays when he or she purchases the bond.
D. Interest rates on long-term bonds are usually higher than interest rates on short-term bonds.

15. The economy's two most important financial markets are _____.

A. banks and the stock market.
B. the bond market and the stock market.
C. financial markets and financial institutions.
D. the investment market and the saving market.

Continued

16. Kenny Rogers wants to finance the purchase of new equipment for its restaurants. The firm has limited internal funds, so Kenny Rogers likely will _____.

A. supply funds to the financial system by buying bonds.
B. supply funds to the financial system by selling bonds.
C. demand funds from the financial system by buying bonds.
D. demand funds from the financial system by selling bonds.

17. Compared to short-term bonds, other things the same, long-term bonds generally have _____.

A. less risk and so they pay lower interest rates.
B. less risk and so they pay higher interest rates.
C. more risk and so they pay higher interest rates.
D. about the same risk and so they pay about the same interest rate.

18. Which particular interest rate(s) do we attempt to explain using the theory of liquidity preference?

A. only the nominal interest rate.
B. only the interest rate on long-term bonds.
C. only the interest rate on short-term government bonds.
D. both the nominal interest rate and the real interest rate.

19. Which of the following is *not* a reason the aggregate-demand curve slopes downward? As the price level increases, _____.

A. real wealth declines.
B. the interest rate increases.
C. the exchange rate increases.
D. firms may believe the relative price of their output has risen.

20. Which among the following assets is the most liquid?

A. capital goods.
B. funds in a checking account.
C. stocks and bonds with a low risk.
D. stocks and bonds with a high risk.

Continued...

21. In which of the following cases would the quantity of money demanded be *smallest*?

A. $r = 0.04, P = 1.0$.
B. $r = 0.04, P = 1.2$.
C. $r = 0.05, P = 1.0$.
D. $r = 0.07, P = 1.0$.

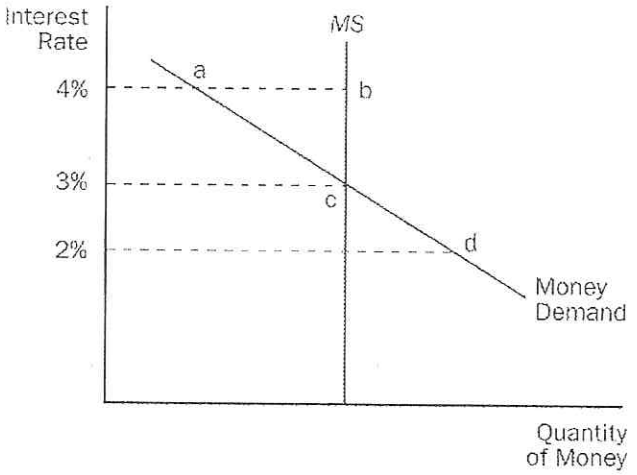

Exhibit 1

22. Refer to **Exhibit 1**, if the current interest rate is 2 percent, _____.

A. there is an excess supply of money.
B. people will sell more bonds, which drives interest rates up.
C. as the money market moves to equilibrium, people will buy more goods.
D. All of the above are correct.

23. The term *hyperinflation* refers to _____.

A. decrease in the inflation rate.
B. a period of very high inflation.
C. inflation accompanied by a recession.
D. the spread of inflation from one country to others.

24. When the money market is drawn with the value of money on the vertical axis, a decrease in the price level causes a _____.

A. shift to the left of the money supply curve.
B. shift to the right of the money supply curve.
C. movement to the right along the money demand curve.
D. movement to the left along the money demand curve.

Continued...

25. An increase in the price level makes the value of money _____.

A. increase, so people want to hold less of it.
B. increase, so people want to hold more of it.
C. decrease, so people want to hold less of it.
D. decrease, so people want to hold more of it.

26. The supply of money increases when _____.

A. the interest rate increases.
B. the value of money increases.
C. the Fed makes open-market purchases.
D. None of the above is correct.

27. During recessions, _____.

A. factories are idle.
B. workers are laid off.
C. firms may find they are unable to sell all they produce.
D. All of the above are correct.

28. The model of short-run economic fluctuations focuses on the price level and _____.

A. real GDP.
B. economic growth.
C. the neutrality of money.
D. none of the above is correct.

29. A policy intended to reduce unemployment by taking advantage of a tradeoff between inflation and unemployment leads to _____.

A. higher inflation and lower unemployment in the long run.
B. higher inflation and no change in unemployment in the long run.
C. both higher inflation and higher unemployment in the long run.
D. the same inflation rate and lower unemployment in the long run.

30. The short-run Phillips curve intersects the long-run Phillips curve where _____.

A. the actual rate of inflation equals the expected rate of inflation.
B. the actual rate of unemployment equals the natural rate of unemployment.
C. Both A and B are correct.
D. None of the above is correct.

Continued

31. If policymakers accommodate an adverse supply shock, then in the short run the unemployment rate _____.

A. and the inflation rate rise.
B. and the inflation rate fall.
C. falls and the inflation rate rises.
D. rises and the inflation rate falls.

32. Which type(s) of economies interact with other economies?

A. open economies.
B. closed economies.
C. closed economies and open economies.
D. neither closed nor open economies.

33. A country sells more to foreign countries than it buys from them. It has_____.

A. a trade deficit and positive net exports.
B. a trade deficit and negative net exports.
C. a trade surplus and positive net exports.
D. a trade surplus and negative net exports.

34. A country has a trade deficit. It's _____.

A. net capital outflow must be positive, and saving is larger than investment.
B. net capital outflow must be positive and saving is smaller than investment.
C. net capital outflow must be negative and saving is larger than investment.
D. net capital outflow must be negative and saving is smaller than investment.

35. A country's saving is greater than its domestic investment. This difference means that its _____.

A. net capital outflow and net exports are positive.
B. net capital outflow and net exports are negative.
C. net capital outflow is positive and net exports are negative.
D. net capital outflow is negative and net exports are positive.

36. The open-economy macroeconomic model examines the determination of _____.

A. the trade balance and the exchange rate.
B. the output growth rate and the inflation rate.
C. unemployment and the exchange rate.
D. the output growth rate and the real interest rate.

Continued...

37. In the open-economy macroeconomic model, the market for loanable funds equates national saving with _____.

A. domestic investment.
B. net capital outflow.
C. the sum of national consumption and government spending.
D. the sum of domestic investment and net capital outflow.

38. The explanation for the slope of _____.

A. the supply of loanable funds curve is based on the logic that a higher real interest rate leads to higher saving.
B. the demand for loanable funds curve is based on the logic that a higher interest rate leads to higher saving.
C. the supply of loanable funds curve is based on the logic that a higher real interest rate leads to lower saving.
D. the demand for loanable funds curve is based on the logic that a higher interest rate leads to lower saving.

39. If there is a surplus of loanable funds, the quantity demanded is _____.

A. less than the quantity supplied and the interest rate will rise.
B. less than the quantity supplied and the interest rate will fall.
C. greater than the quantity supplied and the interest rate will rise.
D. greater than the quantity supplied and the interest rate will fall.

40. Which of the following would make both the equilibrium real interest rate and the equilibrium quantity of loanable funds increase?

A. The demand for loanable funds shifts right.
B. The demand for loanable funds shifts left.
C. The supply of loanable funds shifts right.
D. The supply of loanable funds shifts left.

Continued...

SECTION B (60 Marks)

There are THREE (3) short structured questions in this section. Answer ALL questions on the answer booklet.

Question 1 (20 marks)

(a) Suppose the Central Bank sells government bonds.

(i) Use a graph of the money market to show the effect of the Central Bank's action.

(6 marks)

(ii) Explain the graph that you drew in (i) and how it affects the value of money.

(3 marks)

(b) Country A is experiencing severe inflation due to an increase in aggregate demand.

i) Suggest an appropriate monetary policy that may help to solve the inflation problem in country A.

(1 mark)

ii) Explain how two (2) of the Central Bank's tools of monetary control work in solving the inflation problem.

(6 marks)

iii) Explain the effect of the **three (3)** tools in (ii) on money supply, aggregate demand, output and price level.

(4 marks)

Continued...

Question 2 (20 marks)

(a) **Table 1** below uses data for the year 2003 provided by the United States' Bureau of Labour Statistics and adjusted to be comparable to U.S. data.

Re-draw the table in your answer sheet and fill in the blank entries in the table.

(10 marks)

Table 1

Country	Adult Population ('000)	Labor Force ('000)	Employed ('000)	Unemployed ('000)	Unemploy-ment Rate (%)	Labor-Force Parti-cipation Rate (%)
Japan	109,474		62,510	3,500		
France	46,804	26,870		2,577	9.59	57.41
Germany	70,159	39,591	35,755		9.69	56.43

(b) Specify the relationship between inflation and unemployment. Draw the appropriate graph of both long run and short run relationship between inflation and unemployment.

(10 marks)

Question 3 (20 marks)

(a) Identify each of the following acts as representing either saving or investment.

(5 marks)

(i) Fred uses some of his income to buy government bonds.
(ii) Julie takes some of her income and buys mutual funds.
(iii) Alex purchases a new truck for his delivery business using borrowed funds.
(iv) Elaine uses some of her income to buy stock in a major corporation.
(v) Henrietta hires a builder to construct a new building for her bicycle shop.

(b) Draw and label a graph showing equilibrium in the market for loanable funds.

(8 marks)

Continued...

(c) i) Define purchasing power parity.

(2marks)

ii) Differentiate between nominal exchange rate and real exchange rate.

(3 marks)

iii) Suppose a bottle of wine costs 25 euros in France and 20 dollars in the United States. If the exchange rate is 1.25 euros per dollar, what is the real exchange rate in United States?

(2 marks)

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